

1. [Introduction](#)
2. [Subjective Value and Gains from Trade](#)
3. [Scarcity and Opportunity Cost](#)
4. [Thinking at the Margin](#)
5. [Division of Labor and Comparative Advantage](#)
6. [Demand](#)
7. [Supply](#)
8. [Price Determination: Demand and Supply Together](#)
9. [Prices Communicate Dispersed Knowledge](#)
10. [The Problem with Price Controls](#)
11. [Profit and Loss Guide Entrepreneurial Discovery](#)
12. [Free Market Incentives Foster Service to Others](#)
13. [The Importance of Economic Liberty](#)
14. [Further Reading](#)

Introduction

Economics is the study of human choice. In this Guide, Professor Howard Baetjer of Towson University introduces important concepts in economics that serve as the foundation for the economic way of thinking.

Introduction

<https://www.youtube.com/embed/O-iqO6xBi-8>

"Foundational Concepts in Economics
with Howard Baetjer" by
Libertarianism.org

That a free economy works at all is one of the most remarkable things in the human experience. How can billions of people acting in their individual self-interest—and knowing little about the particular purposes or wishes of others—nevertheless manage to cooperate and produce for one another an ever-increasing abundance of goods and services with nobody in charge?

Some basic economic concepts help us understand and appreciate that marvel.

This course has two main goals. The first is to help the reader learn “the economic way of thinking,” the foundational concepts economists use to make sense of the economy. Those concepts, on which the rest of economics is based, are pre-sented in Lectures 1–7: subjective value, scarcity, opportunity cost, thinking “at the margin,” comparative advantage, division of labor, and the famous supply and demand.

The second goal is to help readers understand why people need free markets to flourish. The underlying institutions of a free market—private ownership and freedom of exchange— are necessary to human well-being for three main reasons, addressed in Lectures 8–12.

First, we need the information that free-market prices give us. Market prices are a kind of telecommunications system; they communicate to everyone what everybody else individually knows about the availability of and need for various goods and services, and thereby they make it possible for us to coordinate our various actions.

Second, we need free-market profit and loss to guide business enterprise. Profit made in a free market signifies the creation of value for others; loss signifies the destruction of value. In a world where no one can be sure what to do today to make the world a better place tomorrow, this profit-and-loss guidance is indispensable.

Third, we need the incentives that free markets give us to serve others. In free markets, we all must consider the wishes of others in order to get from them what we want, because those others don't have to deal with us. That is not the case where government force may be used to get what we want from others against their wishes. In brief, free markets provide everyone the knowledge, the guidance, and the incentives we need to produce for one another in an extended order of human cooperation.

Economics has great explanatory power. It helps us understand much of what happens in the social world, and how free people benefit others as they seek to benefit themselves. I hope you enjoy this presentation of why that is so.

Economics and Free Markets: An Introduction

Howard Baetjer's companion volume to this guide, *Economics and Free Markets: An Introduction* offers a short introduction to economics and the market economy. Visit Libertarianism.org to download the book for free.

Libertarianism.org Guides

Libertarianism.org's guides are self-paced online courses taught by top professors and experts. Guides introduce the basic ideas and principles of a free and flourishing society and serve as a path to further learning. Start with the introductory video, then dive into the lecture series and featured

book. Each Guide's homepage offers reading lists, essays, and links to other helpful materials. Check out [Libertarianism.org](https://libertarianism.org) to find more guides.

Subjective Value and Gains from Trade

Professor Howard Baetjer of Townson University outlines some basic concepts essential to understanding economics, including wealth creation, economic value, and trade.

[https://www.youtube.com/embed/ 50ZBn1kLHo](https://www.youtube.com/embed/50ZBn1kLHo)

"1. Subjective Value and Trade |
Foundational Concepts in Economics with
Howard Baetjer" by Libertarianism.org

Description

Professor Howard Baetjer of Townson University outlines some basic concepts essential to understanding economics, including wealth creation, economic value, and trade.

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Scarcity and Opportunity Cost

Professor Howard Baetjer of Towson University explains scarcity, the problem that any given good of finite supply can only ever be put to some of the many ends for which we might use it, and opportunity cost, the concept that taking one option costs us the benefit we would have gotten from taking the next-best option instead.

https://www.youtube.com/embed/NE1ma_TVgdg

"2. Scarcity and Opportunity Cost |
Foundational Concepts in Economics with
Howard Baetjer" by Libertarianism.org

Description

Professor Howard Baetjer of Towson University explains scarcity, the problem that any given good of finite supply can only ever be put to some of the many ends for which we might use it, and opportunity cost, the concept that taking one option costs us the benefit we would have gotten from taking the next-best option instead.

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Thinking at the Margin

Professor Howard Baetjer of Towson University explains that all economic behavior occurs at the margin. The decisions of economic actors are “bit by bit” decisions, not all-or-nothing ones.

https://www.youtube.com/embed/s1OCAio_ntY

"3. Thinking at the Margin | Foundational Concepts in Economics with Howard Baetjer" by Libertarianism.org

Description

Professor Howard Baetjer of Towson University explains that all economic behavior occurs at the margin. The decisions of economic actors are “bit by bit” decisions, not all-or-nothing ones.

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Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Division of Labor and Comparative Advantage

Building on the concept of opportunity cost, Professor Howard Baetjer of Towson University explains how specialization and trade make us richer.

<https://www.youtube.com/embed/uV3cKDgmaxc>

"4. Comparative Advantage, Division of
Labor | Foundational Concepts in
Economics with Howard Baetjer" by
Libertarianism.org

Description

Building on the concept of opportunity cost, Professor Howard Baetjer of Towson University explains how specialization and trade make us richer.

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Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Demand

Professor Howard Baetjer of Towson University explains the “demand” half of “supply and demand.”

<https://www.youtube.com/embed/eVB3SPbUaho>

"5. Demand | Foundational Concepts in
Economics with Howard Baetjer" by
Libertarianism.org

Description

Professor Howard Baetjer of Towson University explains the “demand” half of “supply and demand.”

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Supply

Professor Howard Baetjer of Towson University explains the “supply” half of “supply and demand.”

https://www.youtube.com/embed/XubxV_XZ4JI

"6. Supply | Foundational Concepts in
Economics with Howard Baetjer" by
Libertarianism.org

Description

Professor Howard Baetjer of Towson University explains the “supply” half of “supply and demand.”

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Price Determination: Demand and Supply Together

Having discussed supply and demand separately, Professor Howard Baetjer of Towson University explains how, together, they describe the way markets operate.

https://www.youtube.com/embed/I1M6_r0xUTk

"7. Supply and Demand Together |
Foundational Concepts in Economics with
Howard Baetjer" by Libertarianism.org

Description

Having discussed supply and demand separately, Professor Howard Baetjer of Towson University explains how, together, they describe the way markets operate.

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Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Prices Communicate Dispersed Knowledge

Prices, explains Professor Howard Baetjer of Towson University, are a powerful tool for getting people the knowledge they need to cooperate with one another in the market.

https://www.youtube.com/embed/stV7IPU4_Fo

"8. Prices Communicate Dispersed
Knowledge | Foundational Concepts in
Economics with Howard Baetjer" by
Libertarianism.org

Description

Prices, explains Professor Howard Baetjer of Towson University, are a powerful tool for getting people the knowledge they need to cooperate with one another in the market.

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

The Problem with Price Controls

Continuing his discussion of prices, Professor Howard Baetjer of Towson University explains what can go wrong when outside interference prevents genuine market prices from emerging.

<https://www.youtube.com/embed/Va2bWxsIEB4>

"9. The Problems with Price Controls |
Foundational Concepts in Economics with
Howard Baetjer" by Libertarianism.org

Description

Continuing his discussion of prices, Professor Howard Baetjer of Towson University explains what can go wrong when outside interference prevents genuine market prices from emerging.

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Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Profit and Loss Guide Entrepreneurial Discovery

The trial-and-error based profit and loss mechanism, says Professor Howard Baetjer of Towson University, is an indispensable tool for guiding discovery and innovation in the economy.

<https://www.youtube.com/embed/TxMUguGhFgE>

"10. Profit and Loss Guide Discovery |
Foundational Concepts in Economics with
Howard Baetjer" by Libertarianism.org

Description

The trial-and-error based profit and loss mechanism, says Professor Howard Baetjer of Towson University, is an indispensable tool for guiding discovery and innovation in the economy.

Go to Libertarianism.org to Learn More

Go to Libertarianism.org to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Free Market Incentives Foster Service to Others

Professor Howard Baetjer of Towson University argues that the incentives inherent in market institutions outperform the incentives inherent in state institutions in getting people to properly consider the well-being of others when they act.

<https://www.youtube.com/embed/DsIHNYdRlvc>

"11. Free Markets Incentivize Service | Foundational Concepts in Economics with Howard Baetjer" by Libertarianism.org

Description

Professor Howard Baetjer of Towson University argues that the incentives inherent in market institutions outperform the incentives inherent in state institutions in getting people to properly consider the well-being of others when they act.

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

The Importance of Economic Liberty

Professor Howard Baetjer of Towson University illustrates the harmful effects of economic regulations and argues that we ought to instead prefer economic liberty.

<https://www.youtube.com/embed/5krldl2r94o>

"12. The Importance of Economic Liberty | Foundational Concepts in Economics with Howard Baetjer" by
Libertarianism.org

Description

Professor Howard Baetjer of Towson University illustrates the harmful effects of economic regulations and argues that we ought to instead prefer economic liberty.

Go to Libertarianism.org to Learn More

Go to [Libertarianism.org](https://libertarianism.org) to download the free book *Economics and Free Markets: An Introduction*, find lecture transcripts, and explore articles, podcasts, and more.

Further Reading

Did you enjoy Professor Baetjer's guide "Foundational Concepts in Economics"? Check out these great books on the foundations of economics and free markets.

Further Reading

Henry Hazlitt, [*Economics in One Lesson*](#)

- Rightly billed as “the shortest and surest way to understand basic economics,” this book has been the most valuable book in my economics education. In short, lucid chapters, it teaches how to think about economic policies and problems such as taxes, tariffs, subsidies, rent controls, minimum wage laws, unions, profits, and inflation. It’s superb.

Thomas Sowell, [*Basic Economics*](#)

- This book, appropriately subtitled “A Common Sense Guide to the Economy,” is a rich and rewarding exploration of the fundamental facts and principles of economics. Its engaging writing and broad range of illustrative examples make learning economics relaxed and enjoyable.

Howard Baetjer Jr., [*Free Our Markets*](#)

- The freer the markets people live in, the better they flourish. This book explains why that is so, in terms of foundational economic principles. Free of graphs and economic jargon, it uses thought experiments and examples to give the reader an intuitive understanding of spontaneous economic order.

Arnold Kling, [*Specialization and Trade: A Re-Introduction to Economics*](#)

- A concise reexamination of economics, which shows how the economy is an evolutionary system, with constantly changing patterns of specialization and trade.